

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

14 O STREET, Suite 200
P.O. BOX 942874
SACRAMENTO, CA 94274-0001
PHONE (916) 323-7111
FAX (916) 323-7123
TTY: (916) 654-4086



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April 2, 2008

Mr. Steve Dial, Deputy Executive Director
San Joaquin Council of Governments
555 E. Weber Avenue
Stockton, CA 95202

Re: San Joaquin Council of Governments
Audit of Indirect Cost Allocation Plan FY 2007/08
File No: P1190-0671

Dear Mr. Dial:

We have audited the San Joaquin Council of Governments (SJCOG's) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department's) Local Programs Procedures (LPP) 04-10. The SJCOG management is responsible for the fair presentation of the ICAP. The SJCOG proposed an indirect cost rate of 145.64% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the SJCOG. Therefore, we did not audit and are not expressing an opinion on the SJCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the SJCOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the SJCOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of the Overall Work Program for FY 07/08, a review of the SJCOG's single audit report for the fiscal year ended June 30, 2006, inquiries of SJCOG personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2006 and prior audit work completed on June 14, 2004. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

Based on audit work performed, the SJCOG's ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 145.64% of total direct salaries and wages plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

This report is intended solely for the information of the SJCOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Jimmy Motta, Auditor, at (916) 323-7914 or Amada Maenpaa, Audit Supervisor, at (916) 323-7868.


MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, Division of Accounting
Pat Robledo, District 10
Andrew Knapp, Division of Planning
Kathy Selsor, ORIP, District 10

File copy: P1190-0671

SAN JOAQUIN COUNCIL OF GOVERNMENTS

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the *San Joaquin Council of Governments* and approved by Caltrans.

SECTION I: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry forward	7/1/2007 to 6/30/2008	145.64%	All Programs

*Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any differences between the application of the fixed rate and actual costs will result in an over or

under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

FY 2008 Budgeted Indirect Costs	\$ 2,233,380
<u>Carry Forward from FY 2006</u>	<u>1,177,815</u>
Estimated FY 2008 Indirect Costs	\$3,411,195
 FY 2008 Budgeted Direct Salaries and Wages plus Direct Fringe Benefits	 \$2,342,171
 FY 2008 Indirect Cost Rate	 145.64%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.


(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: San Joaquin Council of Governments

Signature: 

Signature: 

 Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Andrew T. Chesley

Name of Official: Steve Dial

Title: Executive Director

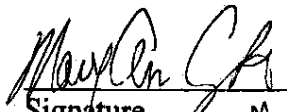
Title: Deputy Executive Director/CFO


Date of Execution: August 8, 2007

Phone: (209) 468-3913

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.


Signature _____
Reviewed and Approved by: MaryAnn Campbell Smith
(Name of Audit Manager)
Title: Chief - External Audits
Date: 4/2/08
Phone Number: (916) 323-7105


Signature _____
Reviewed and Approved by: Jimmy Hotta
(Name of auditor)
Title: Auditor
Date: 4/2/08
Phone Number: (916) 323-7914

Attachment #2
San Joaquin Council of Governments
 FY 2007/2008 Indirect Cost Carryforward Calculation

FISCAL YEAR		2005/06	2006/07	2007/08
NEGOTIATED FIXED RATE		161.85%	164.55%	145.64%
ESTIMATED COSTS				
Base: Direct Salaries & Fringe		1,695,817	1,863,644	2,342,171
Indirect Costs		1,998,025	2,051,034	2,233,380
Carry-forward (+ or -)		746,659	1,015,533	1,177,815
Adjusted Indirect Costs		2,744,684	3,086,568	3,411,195
ACTUAL COSTS				
Base: Direct Salaries +Direct Fringe		1,187,108		
Indirect Costs		2,352,493		
Carry-forward (+ or -)		746,659	1,015,533	1,177,815
Adjusted Indirect Costs		3,099,152	1,015,533	1,177,815
CARRY-FORWARD COMPUTATION				
Actual Recovery				
(Fixed Rate x Actual Base):				
161.85%	x 1,187,108	1,921,337		
164.55%	x 0		0	
145.64%	x 0			0
Should Have Recovered		3,099,152	1,015,533	1,177,815
(OVER)UNDER-RECOVERED		1,177,815	1,015,533	1,177,815